



Advising the Congress on Medicare issues

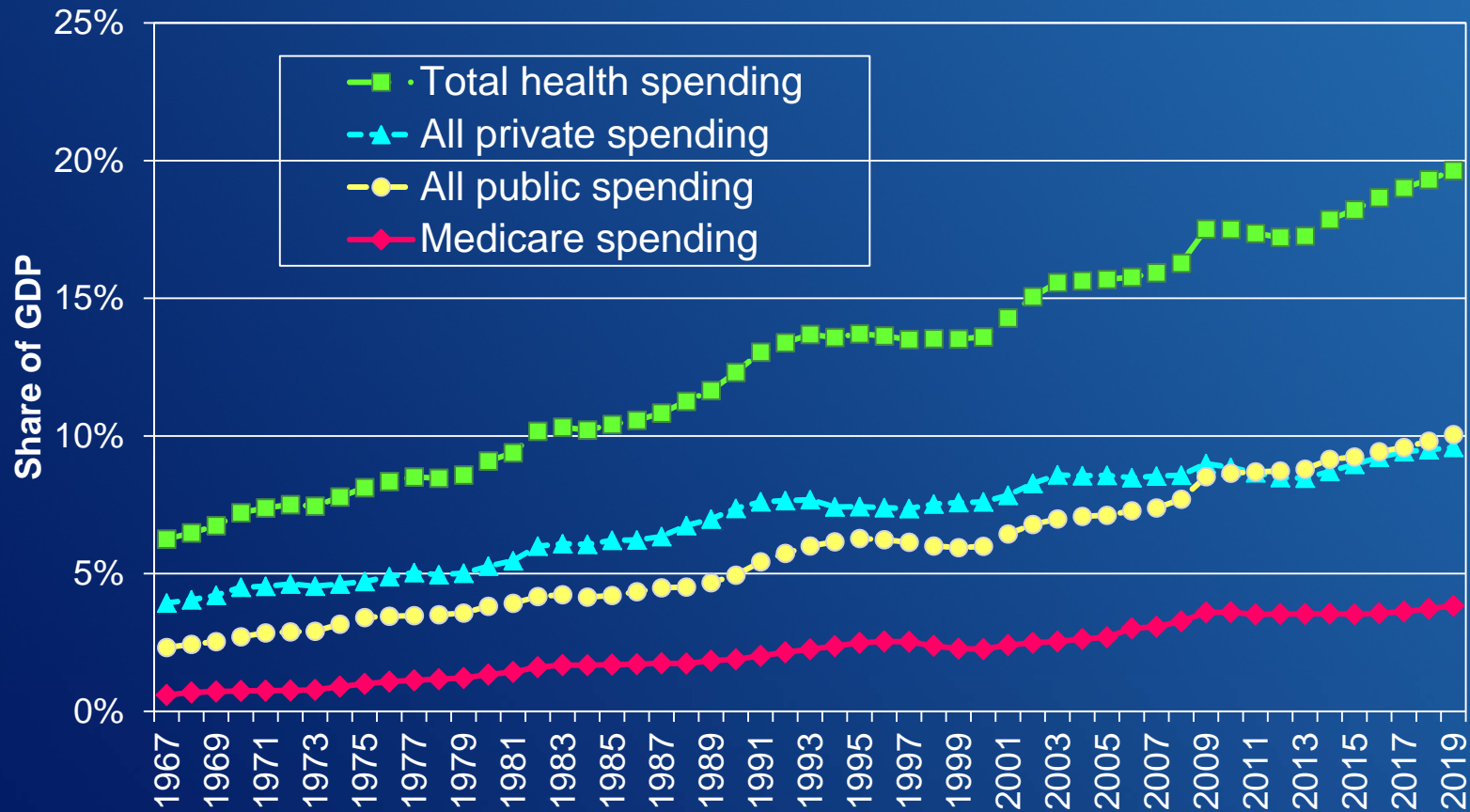
Context for Medicare payment policy

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Objective of the context chapter

- Commission mandate
 - Effect of Medicare payment policies on health care delivery
 - Implications of changes in health care delivery on the Medicare program
 - Budget consequences
- Outline
 - Trends in health care spending
 - Factors behind health care spending growth
 - Overall budgetary environment
 - Medicare's financial picture
 - Change in Medicare population over time
 - Features of the health care marketplace
 - Evidence of inefficient health care spending

Trends in health care spending



Source: Centers for Medicare & Medicaid Services, National Health Expenditures

Recent economic conditions slowed health care spending to historic low growth

	One year growth rate (2009-2010)	Ten year average annual growth rate (2001-2010)
All national health spending	3.9%	6.3%
Medicare	4.5	8.7
Medicaid	7.2	6.7
Private	2.6	5.7
Out of pocket	1.8	4.3

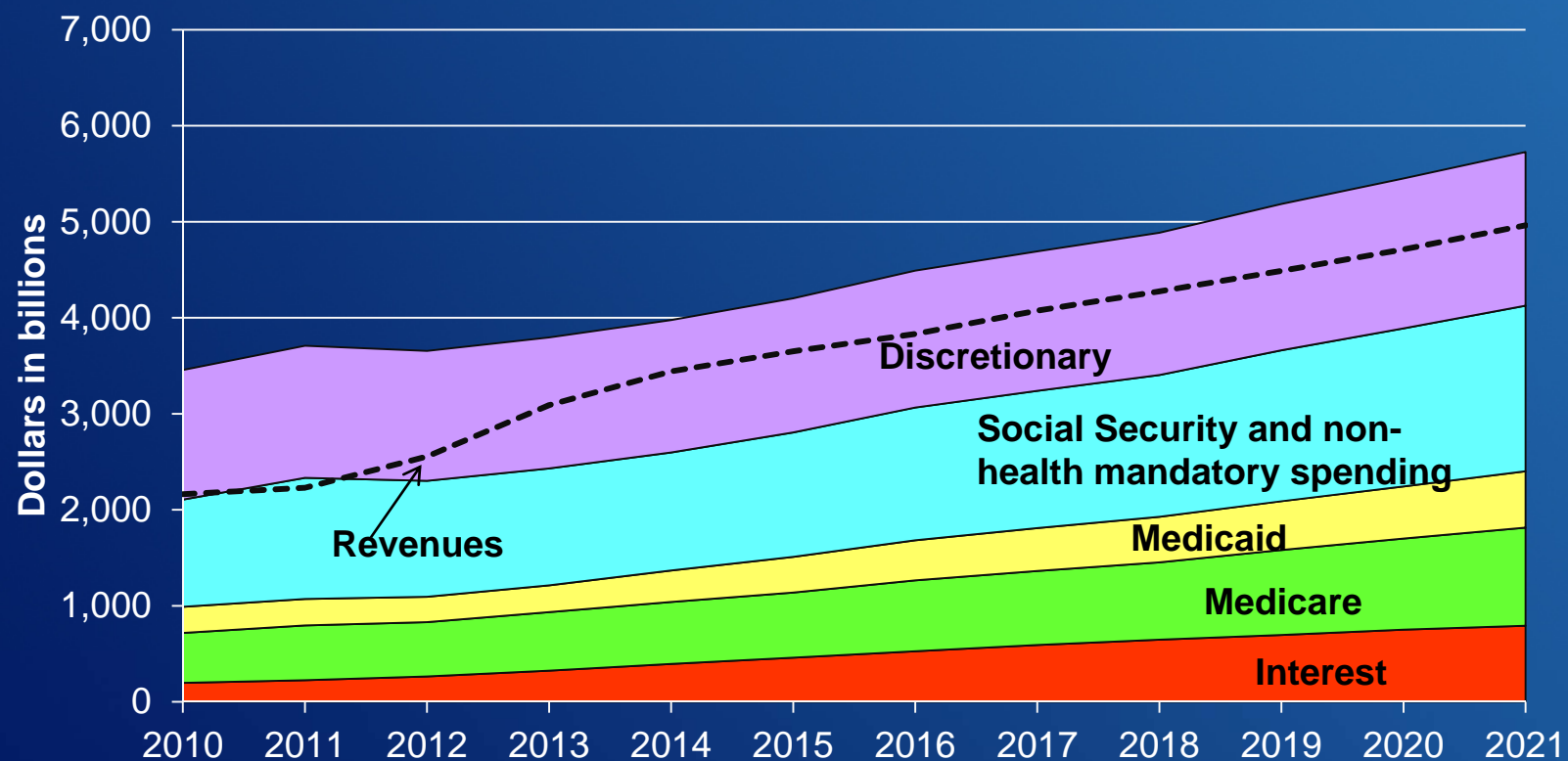
Factors behind health care spending growth

- Technology—defined broadly
- Price
- Competition and regulation
- Health insurance
- Income, wealth and demographics

Increased pressure on governments

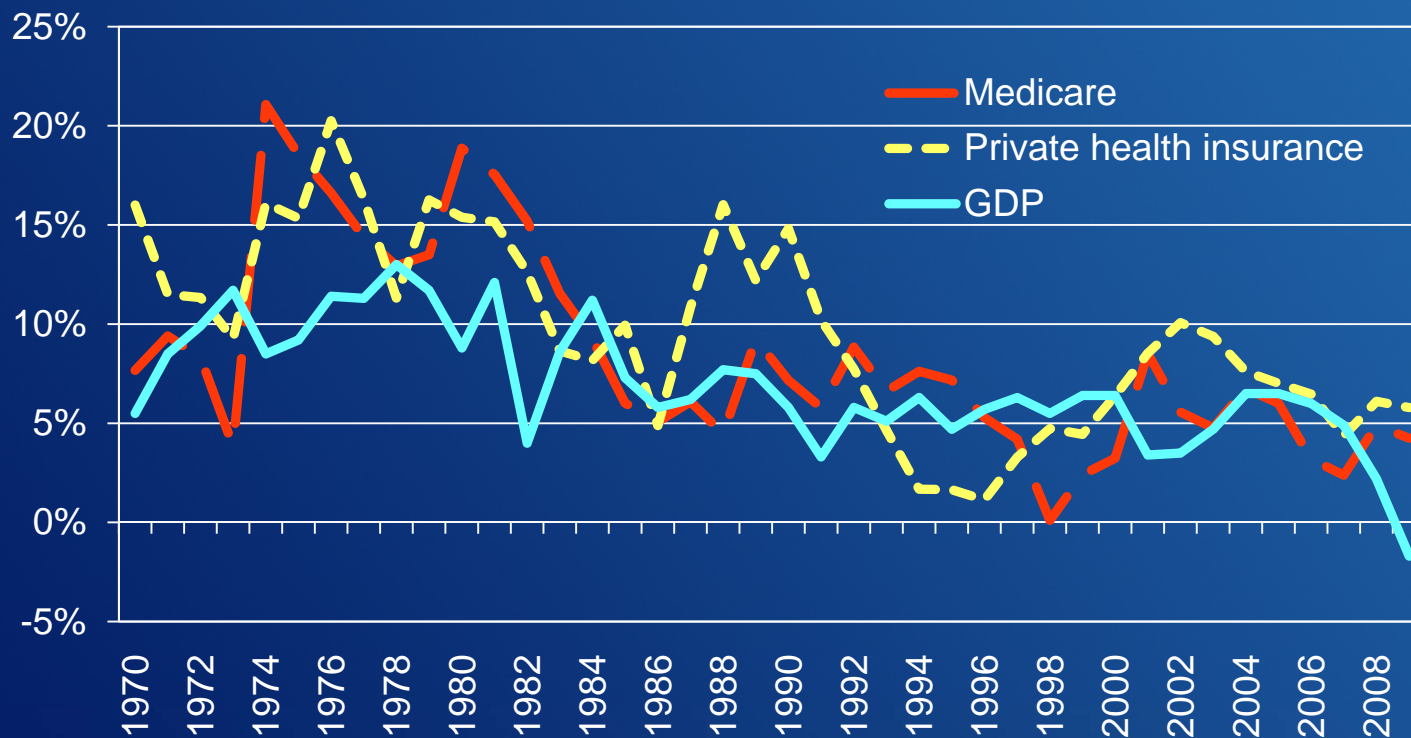
- State and local governments
 - Economic conditions which result in lower tax collections, higher spending on assistance programs
 - Long-term retirement obligations, health care spending growth
 - States experience these pressures even with federal support through Medicaid, temporary federal support in Recovery Act
- Federal government
 - Recession in the short term plus long-term structural imbalance
 - Growth in health care spending per beneficiary dominates long-range Medicare and Medicaid spending

Federal government's fiscal position



Source: Congressional Budget Office 2011 Budget and Economic Outlook.

When accounting for difference in benefits, growth in Medicare and private insurance is very similar



Note: Common benefits are hospital services, physician and clinical services, other professional services, and durable medical products.

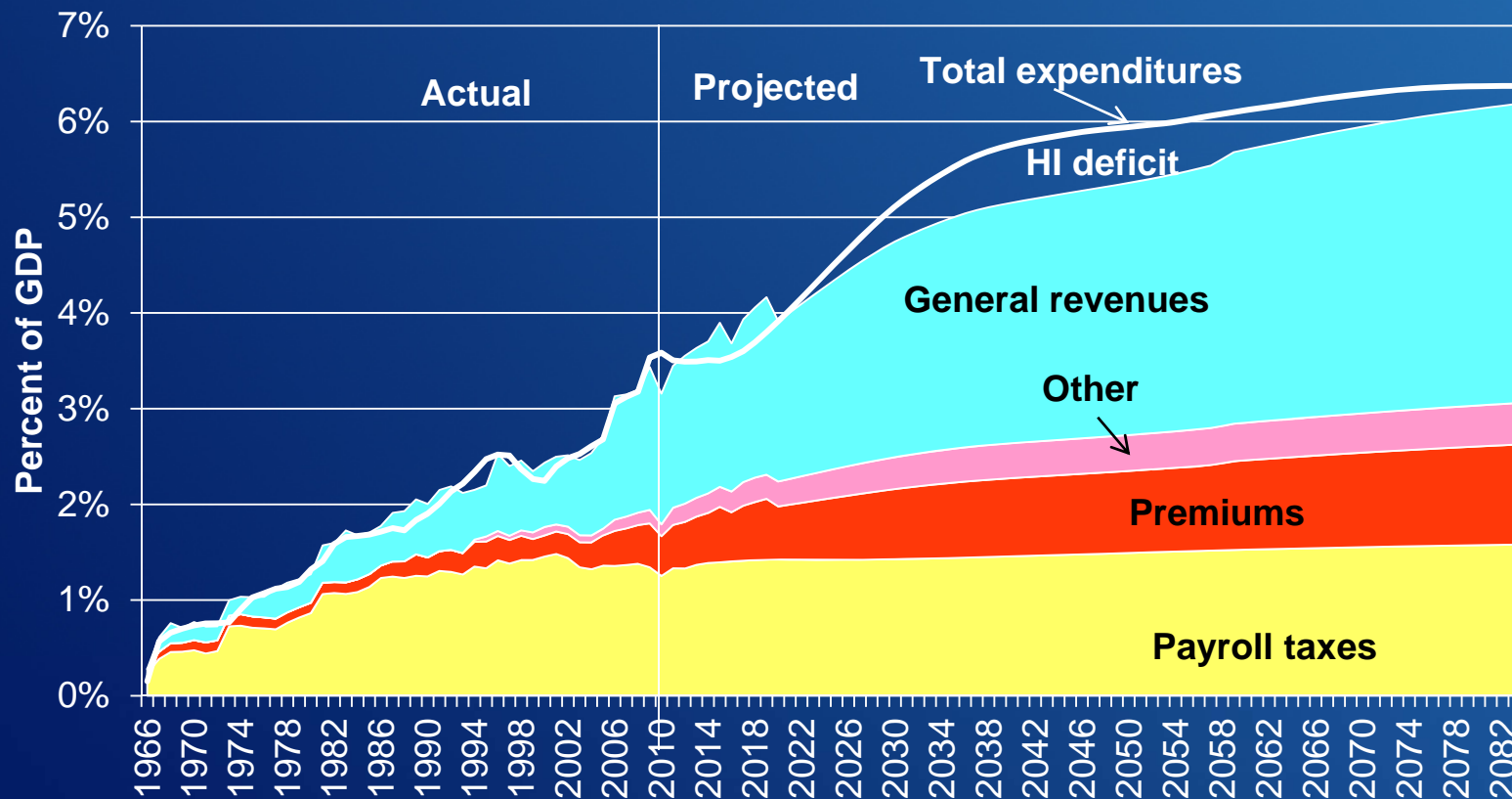
Source: Centers for Medicare & Medicaid Services, National Health Accounts.

Projected Medicare average annual growth rates from 2011-2020

	Per beneficiary growth	Change in the number of beneficiaries	Total spending growth
All Medicare	3.0%	2.7%	5.9%
Part A	1.6	3.0	4.7
Part B	2.7*	2.9	5.8*
Part D	6.6	3.1	9.9
Medicare Advantage	2.0	-3.0	0.2

* Part B estimates include the 30% payment cut for physicians in 2012 due to the SGR. Under the Trustees' illustrative alternative scenario, per beneficiary Part B spending would grow by 5.2 percent annually, amounting to an overall growth rate of 8.1 percent annually.

Medicare faces long-run deficit and absorbs significant general revenues



Source: 2011 Medicare Trustees Report

Effect on beneficiaries

- Health care spending growth affects beneficiaries in three ways
 - Monthly premiums for Parts B and D
 - Cost sharing through coinsurance and deductibles
 - Out-of-pocket spending for services not covered by Medicare such as long-term nursing home care
- Premiums and cost sharing for Parts B and D absorb 30 percent of the average Social Security benefit in 2010, up to 45 percent by 2050

Change in Medicare population over time

- Medicare population will become younger, and a larger share will be Hispanic/Latino
- Population may be less affluent and may be more likely to work after age 65
- May be less likely to have employer insurance but more likely to be continuously insured

Features of the health care marketplace

- **Industry structure:** presence of for- and not-for-profit providers, continuing consolidation
- **Employment:** health care sector has grown 4.7% since December 2008 while the non-health care sector contracted by 3.3%
- **Federal policies:** insurance changes, coverage expansions, federal financing

Evidence of inefficient health care spending

- Value of the marginal health care dollar
- Variation in spending and the use of care across regions
- Disparities across populations
- Comparisons with other countries

Concluding questions

- Are there comments or questions about the material covered in the context chapter?
- Are there additional topics the chapter should cover?